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Dear Jon,

Getting more out of our electricity networks by reforming access and forward-looking charging arrangements

We welcome the opportunity to respond to this important consultation on access and forward looking charging reform across distribution and transmission networks.

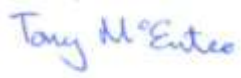
Any review and reform of access and forward looking charging arrangements can only be undertaken together as they are explicitly linked and ideally should be considered across both transmission and distribution network to ensure a consistent whole system approach.

We support Ofgem undertaking this review and we welcome Ofgem's aspiration to align the delivery of change to the start of the RIIO-ED2 price control. We should not underestimate the scale of the task ahead as experience shows that these types of reviews set the direction for a number of future price control periods. Aligning the change to the start of a new price control provides sufficient signposting of change well in advance and encourages affected and potential stakeholders to get involved in the detailed industry discussions.

Our preference is that Ofgem establish a Significant Code Review (SCR) for the comprehensive scope as detailed in Table 2 on page 51 of your consultation. Narrowing the scope of the SCR fails to take into consideration large users, particularly generation users and misses the opportunity to develop new processes for the allocation and reallocation of capacity, important for the efficient operation of the networks. The comprehensive review is best managed under the SCR process, led by Ofgem, rather than splitting between Ofgem and industry led elements as one overall governance structure and programme can be co-ordinated; this enables the appropriate management of all stakeholders engagements increasing the likelihood stakeholders receive targeted information relevant to them.

Annex 1 contains our detailed responses to the consultation questions.

Yours sincerely

A handwritten signature in blue ink that reads "Tony McEntee". The signature is written in a cursive, slightly slanted style.

Tony McEntee
Head of Commercial Innovation

Annex 1 – Detailed responses to the consultation questions

Question 1: Do you agree with the case for change as set out in chapter 2? Please give reasons for your response, and include evidence to support this where possible.

We do agree with the case for change and there is strong evidence from within the Open Networks Project that all consumers would benefit from understanding the rights and obligations of their connection to the distribution networks, even if they choose to be a passive consumer.

We propose that the review should be for all customers as clarity on the rules for access should benefit both customers and network operators in aiding decision making.

By 2050 the additional demands of heat pumps and electric vehicles are forecast to increase energy consumption by more than 40%, which is expected to result in increases in maximum demand in winter, but factors such as Demand Side Response, the smart meter roll out and smart electric vehicle charging are expected to shift some future demand away from the times of peak load.

Our forecasting approach, developed under the Network Innovation Allowance funded project ATLASⁱ, uses scenarios to describe the potential paths to 2050 as we develop the distribution network to meet the needs of our consumers. Current approaches do lead to timely investment, but simply continuing to add new assets to the network is not sustainable in a scenario where we expect electricity demand to increase significantly by 2050.

The charging arrangements at EHV in particular do not provide a long term price signal in that they are likely to change after a user connects.

We do not support financially firm generator connections at either Transmission or Distribution as ultimately all these costs are borne by consumers. Generators should pay for firmer rights if they wish. The cost of a constraint to customers (not generators) should be determined and this should drive the network investment signal.

Question 2: Do you agree with our proposal that access rights should be reviewed, with the aim to improve their definition and choice? Please provide reasons for your response and, where possible, evidence to support your views.

We agree with this approach, as there is currently no effective means of managing capacity requirements on an ongoing basis.

When you consider a typical domestic property, with gas central heating generally serviced by sole use assets with capacity of up to 20kVA, the diversified utilised capacity only averages out around 1.4kVA. But the addition of new low carbon technologies eg solar panels, electric vehicle charging points to both existing and new properties will result in additional capacity being taken up. The Renewable Energy Agency has recently called for all domestic properties to have a 3 phase supply to encourage the uptake of solar, heat pumps and electric vehicles. So we agree it would be worthwhile considering whether to provide domestic customers with detailed capacity rights.

It is worth highlighting that current connection charging arrangements discourage users to give up capacity they are unlikely to use. We have been contacting users in this type of situation and they have generally been reluctant to release any unused capacity.

Furthermore, DUoS charges do not always provide signals to customers that encourage them to release unused capacity. For example, LV and HV generators in our distribution services area do not currently pay any capacity charge.

We could in time move away from evergreen rights to a certain capacity and introduce more 'use it or lose it' arrangements, although this may not be appropriate for domestic customers, particularly vulnerable customers.

Question 3: Specifically, do you have views on whether options should be developed in the following areas as part of a review? Please give reasons for your response, and where possible, please provide evidence to support your views:

- a) Establishing a clear access limit for small users, with greater choice of options (as considered under b) and c) below) above a core threshold – do you agree with our proposal in paragraphs 3.5-3.10 that this should be considered? Do you have views on how a core threshold could be set?
- b) Firm/non-firm and time-profiled access – do you agree with our proposal outlined in paragraphs 3.15-3.21 that these options should be developed?
- c) Duration and depth of access, discussed in paragraph 3.25-3.32 - would these options be feasible and beneficial?
- d) At transmission or distribution in particular, or are both equally important – as discussed in this chapter?

- a) We see many benefits in the concept of a core access product for domestic customers but we are concerned that in practice this will be difficult to define and regulate as although there may be possible groupings to minimise the implementation burden, even the consultation recognises that ‘each household will have their own needs and capabilities’; and these will change over time. But there is a need to clarify the access arrangements for domestic customers to ensure an equal footing as the access rights for larger users are defined. Customers need to see a comparison between the current and future arrangements. Care needs to be taken to assess any impact on vulnerable customers who may not be able to respond but could be affected by decisions made by others.
- b) We agree that the choice of the level and type of access should be defined for larger users as this would enable the network operators to send signals to maximise the capacity usage of existing network assets and to receive signals where additional network capacity is required.
- c) Yes, as we recognise for some types of network user duration and depth of access right are important factors. For example depth is important for those customers and generators that produce and consume electricity within a small geographic location as they may be able to mitigate or reduce the costs for the provision and operation of the high voltage networks; and duration is important for producers of electricity that have a defined life for their electrical assets. As a concept the options seem reasonable but the practicalities in respect of depth of access may need some additional consideration. There is the need to move away from the evergreen capacities for larger demands; either to provide notice of change or renegotiate rights.
- d) These issues mainly exist in distribution but if we are defining access for larger demand users in a distribution network this should be reflected in transmission as well to ensure consistency across the networks. Consequently, access to both transmission and distribution should be reviewed in parallel. It is impractical for all embedded generation to have specific access to transmission and therefore it shouldn’t be a requirement for any embedded generator. Access to the transmission network should be managed by the distribution network to which the generator is connected.

Question 4: Do you agree with the key links between access and charging we have identified in table 1? Why or why not? Do you think there are other key links we have not identified? Where possible, please provide evidence to support your views.

Yes, we agree with the link between access and charging and that the more emphasis on clearly defined access rights the more relevant capacity based charges are rather than usage charges.

Question 5: Do you agree with our proposal that targeted areas of allocation of access should be reviewed? Please give any specific views on the areas below, together with reasons for your response. Where possible, please provide evidence to support your views:

- a) Improved queue management as the priority area for improving initial allocation of access, as outlined in paragraphs 3.41-3.44?
- b) Not to consider the potential role of auctions for initial allocation of access as part of a review at this time, as discussed in paragraph 3.44?
- c) To review the areas outlined in paragraphs 3.45-3.48 to support re-allocation of access?

- a) We support the review including looking into the connections queue management approach with the aim of improving the efficiency and fairness of connections delivery.
- b) No, we believe that there isn't a role for auctions in the initial allocation of network capacity and so we believe it should be ruled out completely. However there may be a role for auctions in the reallocation of network capacity but further analysis is required to consider the best options for reallocation.
- c) We support the view of reallocation.

Question 6: Do you agree that a comprehensive review of forward-looking DUoS charging methodologies, as outlined in paragraphs 4.3-4.7, should be undertaken? Please provide reasons for your response and, where possible, evidence to support your position.

Yes, we support a comprehensive review of DUoS charging methodologies as these require revision to incorporate any new defined arrangements for access rights. EHV charging methodologies do produce volatile charges with some customers having seen moves of over 40% year on year, which shows a lack of stability for customers.

It is worth highlighting again the reluctance of customers to give up capacity. Additionally, when building the network, planners would look at the capacity requirements rather than the maximum demand.

Work has been done previously through the ENA to evaluate the CDCM and EDCM charging methodologies and the links are provided below:

EDCM:

<http://www.energynetworks.org/assets/files/electricity/regulation/DCMF/EDCMReviewGroupFinalReport%2031Dec2015.pdf>

CDCM/"Stage 2" – looked at both CDCM and EDCM:

<http://www.energynetworks.org/assets/files/electricity/regulation/Distribution%20Charging%20Methodology%20Review%20-%20Stage%20Two%20-%20report%20and%20annexes.zip>

It may also be useful to take into consideration the work carried out under the DCUSA for the implementation of changes to the National Terms of Connection with regard to under / over-utilisation of capacity for CT metered customers:

https://www.ofgem.gov.uk/sites/default/files/docs/2015/07/dcp114_and_dcp115_d.pdf

Question 7: Do you agree that the distribution connection charging boundary should be reviewed, but not the transmission connection boundary? Please provide reasons for your response and, where possible, evidence to support your position.

Yes, we support a review of the connection boundary within distribution and not in transmission. Having a common connection boundary across transmission and distribution would benefit potential network users as they would only need to understand one methodology. But redrawing the connection boundary for distribution may require locational DUoS, which is likely to be difficult to implement across all voltage levels down to low voltage in distribution networks.

We do not believe that locational DUoS is practical for all users and hence there may need to be an acceptance of greater socialisation of costs. This is probably justified as existing customers who increase demand within their agreed capacity do not pay directly for reinforcement, whereas new customers do. Alternatively, with the driver being the 'winter peak', tariff structures aimed at excess demand in peak periods could be applied ie a normal peak tariff rate for normal usage and anything above that level could be a different tariff rate as it is this excess demand that is likely to drive reinforcement.

Question 8: Do you agree that the basis of forward-looking TNUoS charging should be reviewed in targeted areas? If you have views on whether we should review the following specific areas please also provide these:

- a) Do you agree that forward-looking TNUoS charges for small distributed generation (DG) should be reviewed, as outlined in paragraphs 4.19-4.23?
- b) Do you consider that forward-looking TNUoS charges for demand should be reviewed, as outlined in paragraphs 4.24-4.27?

Please provide reasons for your response and, where possible, evidence to support your position.

- a) What is not mentioned is who should pay TNUoS. Would it be better for these charges to be levied through distributors to provide a whole network price signal rather than being levied separately on suppliers? This may fit in with the review of the whole supplier hub arrangements.
- b) Yes, while there is concern about the transmission level cost impacts of exporting GSPs, the cost modelling does not identify these costs. Moving to this approach would identify these costs and result in more efficient use of the whole system.

Question 9: Do you agree that a broader review of forward-looking TNUoS charges, or the socialisation of Connect and Manage costs through BSUoS at this time, should not be prioritised for review? Please provide reasons for your response and, where possible, evidence to support your position.

We agree with this view as there is already a considerable amount of work to be completed.

Question 10: Do you agree that there would be value in further work in assessing options to make BSUoS more cost-reflective, and if so, that an ESO-led industry taskforce would be the best way to take this forward?

This does seem a reasonable approach to take.

Question 11: What are your views on whether Ofgem or the industry should lead the review of different areas? Please specify which of SCR scope options A-C you favour, or describe your alternative proposal if applicable. Please give reasons for your view.

Our minded to view is that Ofgem establish a Significant Code Review (SCR) for the Ofgem led Comprehensive scope (C).

In any event the sharing of leadership between Ofgem and the industry imposes a level of complexity that is unnecessary and could lead to sub-optimal outcomes. An Ofgem led review is best managed under the SCR process, with one overall governance structure and co-ordinated programme; this approach would be clearer to our stakeholders and all stakeholder engagement would be managed and co-ordinated by one secretariat maximising their involvement.

Question 12: Do you agree with our proposal to launch an 'Option 1' SCR for areas of review that we lead on? Please give reasons for your view.

This would seem to be inefficient given Ofgem's role in the modifications process, it is logical that Ofgem leads the process to develop the code modifications. Therefore it would be more appropriate to launch an 'Option 3' SCR with support from the industry (DNOs, ESO, code administrators and stakeholders etc). This should also ensure that there is efficient coordination with the Targeted Charging Review.

Question 13: Do you agree with the introduction of a licence condition on the basis described in paragraphs 5.11 and 5.12 and Appendix 5? Why or why not? Do you have any comments on the key elements set out in table 7 of Appendix 5a, or consider there are any other key elements which should be included? Please give reasons for your view.

Taking Option 3 SCR will avoid the need for licence changes; in any event this would slow down the overall process and introduce additional regulatory burdens. A licence condition would make individual companies accountable, but progressing work alongside a SCR requires licensees to work together. Consequently, an individual licensee would not be able to meet the new licence obligation alone.

Question 14: Do you have any comments on the draft wording of the outline licence condition included at Appendix 5b? Please give reasons for your view.

It provides an individual responsibility for joint outputs, for example, the proposed licence condition would require all DNOs to develop and submit one or more change proposals where the required changes could be introduced by one party.

Question 15: What are your views on our indicative timelines? Do you foresee any potential challenges to, or implications of, the proposed timelines and how could these be mitigated?

We note that the timelines are stretching for a review of DUoS charging methodologies, given the last fundamental review took several years of analysis with implementation over several years. Additionally, when the Targeted Charging Review was launched it was scheduled to take around 19 months, but only 24 months have been provided for this more complex area, consequently all milestones would need to be achieved with relevant decisions made in line with the framework. This does support the idea of Ofgem leading the SCR process to ensure it is streamlined and that duplication is eliminated.

Question 16: What are your views on our proposals for coordinating and engaging stakeholders in this work?

The governance framework already developed by Ofgem is ideal for the delivery of this scale of change project but there may be a need to create a Task Force to deliver specific outputs populated with a range of participants from across all parts of the industry. There is a need to raise with the code administrator that support may be required for modelling work, additionally we would support the ENA in wishing to provide secretariat services for the SCR.?

The principles are useful, but indicative charges need to be produced to aid the stakeholder engagement process.

ⁱ www.enwl.co.uk/ATLAS.